01
General report

Highlights

- 70 years of successful business
- we offer innovative ICT products, solutions and services with high added value to our customers
- we are one of the leading export companies and number one when it comes to exporting knowledge
- our strength is based on the synergy between youth and experience of four generations working together
- a high level of integrity and ethics are the main characteristics of our way of working and doing business

Ericsson Nikola Tesla Group in brief

mother company

Ericsson Nikola Tesla d.d. /joint-stock company/

Core business	Provider of modern information and communications products, solutions, software and services
Address	Krapinska 45, PO Box 93, HR-10 002 Zagreb Poljička cesta 39, HR-21 000 Split Ulica Hrvatske Republike 29, HR-31 000 Osijek
Telephone	Zagreb / +385 1 36 53 535 Split / +385 21 20 58 00 Osijek / +385 1 36 53 535
Fax	Zagreb / +385 1 36 53 156 Split / +385 21 43 58 34 Osijek / +385 1 36 53 156
E-mail	etk.company@ericsson.com
Web	www.ericsson.hr/en/homepage
Personal identification number (OIB)	84214771175
Commercial court registration number (MBS)	080002028
Statistical number (MB)	03272699
Share capital	HRK 133,165,000
Shares	1,331,650 registered shares
Ownership structure	Ericsson 49.07 percent, other shareholders 50.91 percent, treasury shares 0.02 percent (as at 31 December 2018)
Share trading	Ericsson Nikola Tesla shares (ERNT-R-A) are traded in the Regular Market of the Zagreb Stock Exchange (ZSE).
IBAN	RBA HR7624840081100331673 ZABA HR8423600001101235687 PBZ HR2223400091110012058 ERSTE HR8824020061100414168
Management Board / Managing Director	Gordana Kovačević, MSc
Chairperson of the Supervisory Board	Franck Pierre Roland Bouétard

affiliated companies

Ericsson Nikola Tesla Servisi d.o.o.

Core business	Provider of network infrastructure build and maintenance services
Address	Krapinska 45, HR-10 002 Zagreb
Telephone	+385 1 30 38 503
Fax	+385 1 30 38 601
E-mail	ehr.company@ericsson.com
Web	www.ericsson.hr/en/ericsson-nikola-tesla-servisi-doo
Personal identification number (OIB)	47445593925
Commercial court registration number (MBS)	080921748
Ownership structure	Ericsson Nikola Tesla d.d. 100 percent
IBAN	RBA HR2124840081107008882
Director	Dario Runje
Chairperson of the Supervisory Board	Gordana Kovačević, MSc

Ericsson Nikola Tesla BH d.o.o.

Core business	Provider of modern information and communications products, solutions, software and services
Address	Kralja Petra Krešimira IV, Lamela B-bb, Mostar, Bosnia and Herzegovina
Telephone	+387 36 446 492
Fax	+387 36 446 494
Web	www.ericsson.hr/en/ericsson-nikola-tesla-bh-en
Unique Identification Number (JIB)	4201717070003
Tax number (VAT id)	201717070003
Registration number	65-01-0996-11
Ownership structure	Ericsson Nikola Tesla d.d. 100 percent
IBAN	UniCredit Bank BA393386904896538387 Raiffeisen Bank BA3916110000002324857
Director	Adnan Halimić
Chairperson of the Supervisory Board	Gordana Kovačević, MSc

Branch office Sarajevo

Address	Fra Anđela Zvizdovića 1, Sarajevo, Bosnia and Herzegovina
Telephone	+387 33 252 260
Fax	+387 33 209 419
Unique Identification Number (JIB)	4201717070011
Director	Adnan Halimić

Libratel d.o.o.

Core business	Provider of telecom services; installation, putting into service and upgrading telecom equipment (core and access network)
Address	Selska 93, HR-10 002 Zagreb
Telephone	+385 1 36 54 035
Fax	+385 1 36 54 038
E-mail	libratel@libratel.hr
Web	www.libratel.hr/eng
Personal identification number (OIB)	97566215530
Commercial court registration number (MBS)	080300404
Ownership structure	Ericsson Nikola Tesla d.d. 100 percent
IBAN	ZABA HR7623600001101211096
Director	Branko Dronjić

Ericsson Nikola Tesla d.d. - Branch office Kosovo

Address	Vicianum Arbëria 3 Veranda C2.7 LI.II Lok.5, Pristina, Republic of Kosovo
Telephone	+381 38 749 080
Tax number (VAT id)	600411235
Registration number	70633647
Ownership structure	Ericsson Nikola Tesla d.d. 100 percent
Director	Besar Spahija

Ericsson Nikola Tesla BY d.o.o.

Address	2 Zybitskaya St., administrative room 17, room 5, 220030 Minsk, Republic of Belarus
Registration number	192753195
Ownership structure	Ericsson Nikola Tesla d.d. 100 percent
Director	Mario Lovreković

Our business model

Due to our agile and effective business model, we are able to offer our customers leading, highly efficient and sustainable ICT solutions, creating in this way a new value for all our stakeholders.

Our business model ensures a high-quality management of varying market conditions and seizing new business opportunities.

Customer focus and motivated employees are the key to our business in which we create new values for our shareholders.

Owing to the activities of the Research and Development Center and centers for customer service delivery, Ericsson Nikola Tesla Group (the Group) is Croatia's leading exporter of knowledge.

As an associated company of Ericsson corporation, Ericsson Nikola Tesla Group operates in the Market Area Europe and Latin America.

external impacts

- technological development
- innovations
- trends and end-user behavior
- climate change
- geopolitical conditions and the macro environment
- standardization
- collaboration and partnership
- regulations
- sustainable development goals

our business

market requirements and customers' requests

business responsibility area
development of competitive business solutions

sales
develop-ment
delivery

supply chain

getting acquainted with new products	planning	procurement	hardware manufacturing and software delivery	logistics

business foundation

nearly 3200 employees

key values
- professionalism
- respect
- perseverance

approximately 1300 employees in R&D

vision and purpose

enable the creation of an advanced, sustainable and connected world

approximately 1700 employees in service provision

mission

enable the full value of connectivity for communication service providers and lead transformation in selected industries through innovative ICT solutions

Customer focus

We develop innovative ICT solutions for our customers.

Motivated employees

We have motivated and talented employees.

Value for stakeholders

We create value for all our stakeholders.

market responsibility area
sales and delivery of solutions to the customers

local supply | service delivery | after-sales

numerous customers worldwide

25 years of leadership in CSR

strategy

- technology leadership
- leading solutions and services
- experts and a strong presence on local and global scale

long-term financial goals

- stable business

key stakeholders and our focus

customers
enable the full value of connectivity

employees
attract, retain and develop top talents

society
a responsible and relevant driver of positive change

shareholders
create new value

Our focused strategy

Ericsson Nikola Tesla Group is the leading provider of ICT solutions and services in the operator segment. It is also the leading provider of innovative solutions for the digital transformation of our partners and customers' business in health care, public safety, state administration, smart cities and multimedia communication.

ICT solutions play a key role in the digital transformation of all industries; they have become a key driver of the fourth industrial revolution and are nowadays crucial in any individual's everyday life and the society as a whole. The Group's role in the society is to enable the creation of an advanced, sustainable and connected world.

Our recognizability and brand are based on innovative ICT solutions that provide our customers with the full value of connectivity and an added value on the market, as well as a focus on end-user requirements.

Information and communications technology brings closer industries that until recently have not been close to each other and enables the opening of new industry segments.

In such a challenging market environment, we wish to lead digital transformation in key industries by offering our customers and partners solutions that are easy to adopt, use and scale.

Our focused strategy is becoming a reality with the help of agility, cutting through complexity and new perspectives on things – that is, through simplicity.

Our strategy is built on foundations, such as technology leadership – which is the result of Ericsson Nikola Tesla, Ericsson and 3PP advanced innovative solutions – as well as competent experts and a strong presence on the local market.

5.7bn

There are now 5.7. billion mobile broadband subscriptions.

120m

There were 120 million new mobile subscriptions globally in Q3 2018.

1.5bn

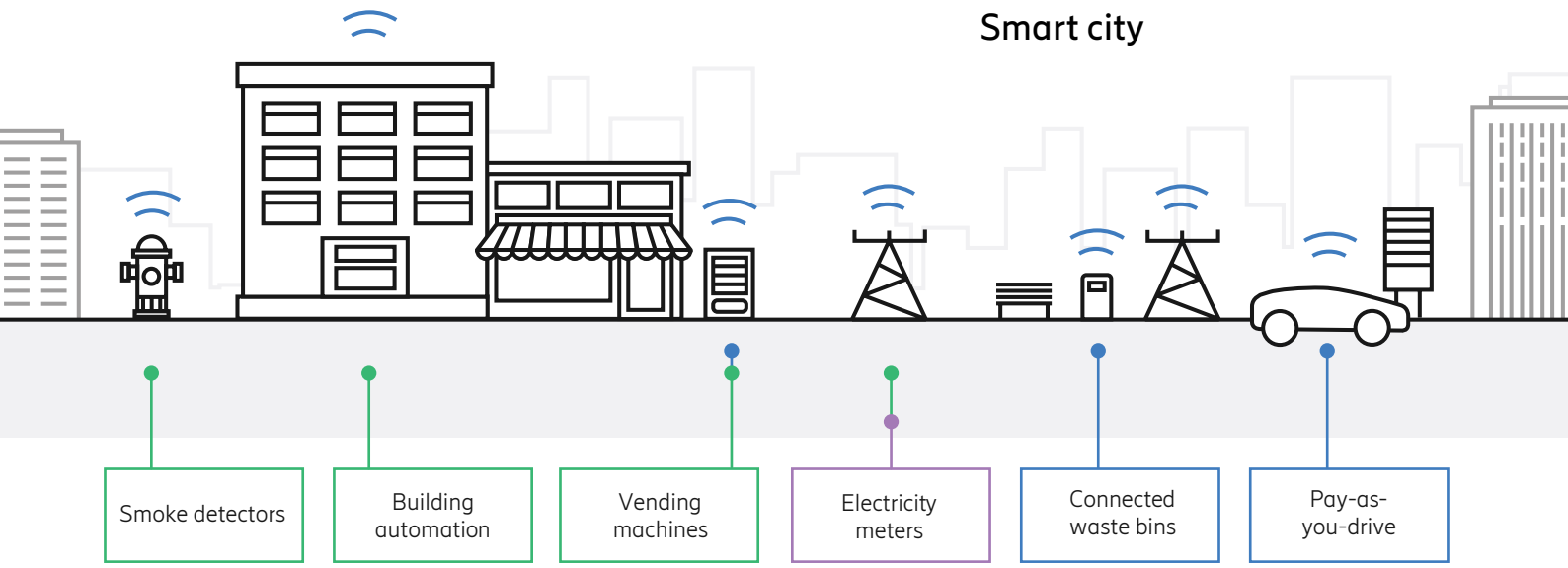
In 2024, 5G subscriptions are expected to reach 1.5 billion.

>40%

In 2024, 5G networks are set to cover over 40 percent of the world's population.

22bn

More than 22 billion Internet of Things connections are forecast in 2024.



Creating value for the customer

Relentless efficiency

- Virtualization and automation for cost efficiencies
- Serviceability
- Smooth network evolution & transformation
- 5G for performance and efficiency
- Smart ICT solutions

End-customer experience

- New approaches using artificial intelligence, cloud, automation and analytics to create a unique customer experience
- Significantly reduce lead-time and increase flexibility in launching service

New revenue streams

- Cellular IoT to extend the value of connectivity
- 5G to enable new use cases
- Digitalization of industries & enterprises

Over 40 percent of the world's population lacks broadband Internet access.

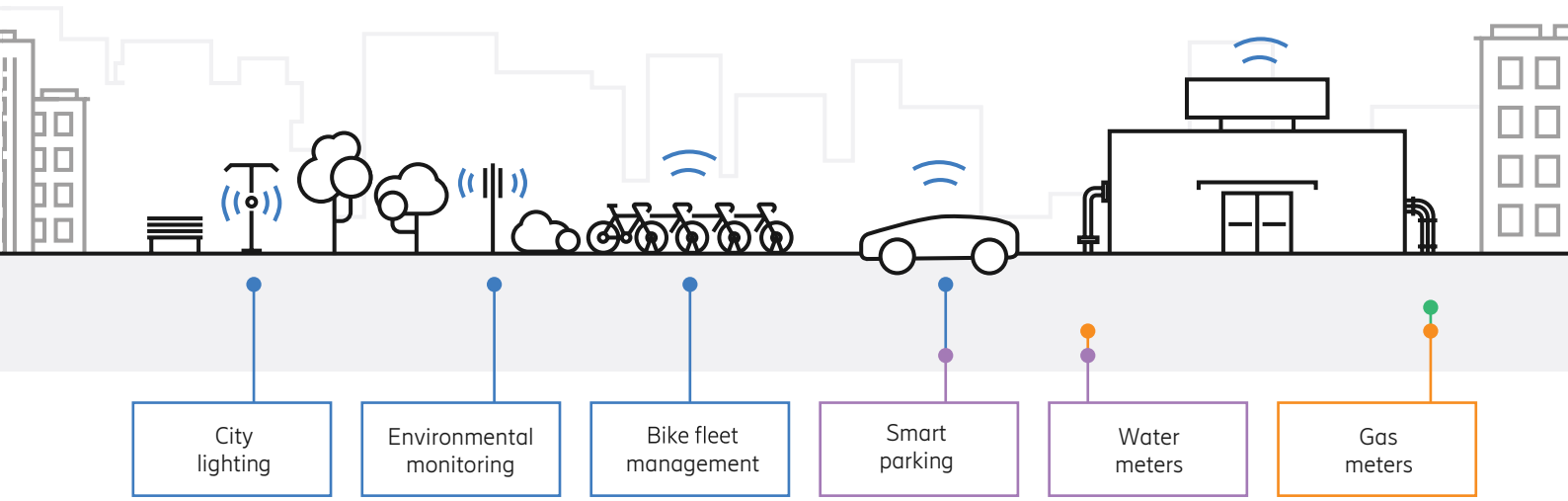
Global spectrum harmonization is crucial for 5G economics.

5G use cases are expected across industries.

Smart manufacturing can require one connected device per square meter of a factory floor.

First 5G smartphones expected in Q2 2019.

Mobile data traffic grew by 80 percent in 2018.



Annual Report on Group performance

Gordana Kovačević
President of Ericsson Nikola Tesla d.d.

2018 was a dynamic year for Ericsson Nikola Tesla Group in terms of business and technology, full of challenges and important achievements. A significant growth in sales revenue was achieved in the domestic market, primarily owing to customers' investments in mobile networks modernization and digital transformation projects. Export markets recorded lower sales revenue due to ramping down of network modernization projects, and challenging economic and political environment in some markets. Services to Ericsson continuously record growth and contribute to the overall stability of financial performance.

5G remains a hot topic both globally and locally. Ericsson has been investing significantly in research and development of 5G and collaborates with key customers and partners to define the future development of 5G mobile networks. 5G is much more than one in a series of generations in mobile technology development; it is an integral part of the digital transformation that enables new forms of communication, improves quality of people's lives, enables better business performance for companies in various industries and overall economic growth.

5G will enable end users to enjoy higher data transfer speeds and services such as 4K/8K video content, as well as solutions based on augmented and virtual reality. Simultaneously, due to low latency and greater data transfer speeds, various industry segments will be able to reduce costs using automation, remote management, and artificial intelligence in the cloud.

Our company is included in global technology trends and consequently, we were the first in Croatia to demonstrate the possibilities offered by 5G in March 2018, only one month after the Mobile World Congress in Barcelona. During summer we supported the leading Croatian operators in their 5G demos in real environment, focusing on end-user services. We have expanded our research and development activities in 4G/5G mobile communications in Zagreb and Split and opened an R&D office in Osijek.

Market overview

In 2018, Ericsson Nikola Tesla Group's sales revenue amounted to MHRK 1,558.2, up by 5.2% year-over-year.

Leading Croatian operators significantly invested in networks modernization and preparation for the upcoming 5G technology, and it is expected that this trend will intensify in the future. Hrvatski Telekom (HT) won an independent international "P3 - Best in Test" certificate for the best mobile network in Croatia, for network quality and customer satisfaction. The results of P3 measurements for A1 Hrvatska are slightly lower compared to HT's results, which places HT and A1 Hrvatska mobile networks among the best worldwide, which confirms the quality of our solutions and services. In ICT Industry & Society segment, we have been working on projects in the area of eHealth, e-Business (land registry and cadaster) and Public Safety (State Border Control).

In the markets of Southeast Europe, our continuous focus on customers' requirements resulted in several contracts with the operators related to modernization of the radio network and networks maintenance. I would like to highlight the continuation of good cooperation with the operators HT Mostar (Bosnia and Herzegovina), Crnogorski Telekom (Montenegro) and Ipko (Kosovo).

In the market of the Commonwealth of Independent States, the project of healthcare system informatization in Kazakhstan has a significant impact on business. In 2018, we delivered the latest eHealth software solution for modernization of the healthcare sector and we continue to work with the Ministry of Healthcare of the Republic of Kazakhstan on Electronic Health Passport project. In operator segment, I would like to highlight the activities on mobile network rollout and modernization with beCloud (Belarus), Ucom (Armenia), and IDC (Moldova).

Business in Ericsson market keeps growing. Ericsson Nikola Tesla's R&D Center currently employs approximately 1,400 out of total 3,200 Ericsson Nikola Tesla Group's employees and is the largest R&D center in Croatia. The Center is focused on expansion of its responsibilities in 4G/5G, competence development and maintaining high quality of delivered services. Owing to R&D activities, as well as activities of our expert centers for Networks, Digital services, Media, Industry & Society and IT & Engineering Services, Ericsson Nikola Tesla is well positioned within the Ericsson Corporation and has been Croatia's leading exporter of knowledge for many years.

Ericsson Nikola Tesla Servisi d.o.o. successfully realized services of monitoring, maintenance and rollout of telecommunication networks.

Key performance indicators

In terms of financial results, gross profit increased by 7% year-over-year, while operating profit increased by 56.3% year-over-year. A strong growth in operating profit is a result of higher gross profit, lower sales and administrative costs and projects realized in line with the Investment Promotion Act. Net profit rose by 67.4% year-over-year to MHRK 113.6. We closed the year with a lean balance sheet and an equity ratio of 36.3%. A positive cash flow from operating activities (amounting to MHRK 75.2) was realized primarily as a result of proactive collection of customer receivables. At the end of 2018, total cash and cash equivalents, including short-term financial assets, amounted to MHRK 236.3. The Group's Working Capital Efficiency, expressed in Working Capital Days (WCD), was 34, however, if we exclude services to Ericsson, Working Capital Efficiency was 87. Cash conversion rate was 38.9%.

Main business risks

The risks which marked our business in 2018 are still present. The demand for and prices of our products and services were impacted by a challenging global environment and economic and political uncertainty in some markets. Also, industry convergence and consolidation among providers of products and services and new IT companies entering the telecommunication market, lead to increased competition. The demand for customer financing continues, as well as an increased credit and commercial risks exposure should our customers face adverse financial conditions. The impact of negative foreign exchange differences on business results should also be taken into consideration, given that the greater part of Ericsson Nikola Tesla Group's revenue is export generated in EUR and USD.

Ethics and compliance

Responsible business practice is the foundation of corporate culture and strategy of Ericsson Nikola Tesla Group. We have been continuously working to strengthen Ethics and Compliance, focusing on trust, transparency and integrity. To constantly meet our strong commitment to conducting business responsibly, the Group demands that all employees and leaders apply the Code of Conduct and Code of Business ethics in fulfilling their duties and responsibilities. This is also required from all other stakeholders who are in a contractual relation with the Group. In 2018, we additionally improved processes and policies which define our anticorruption orientation and all employees have completed the latest version of anticorruption training.

Sustainability and corporate responsibility

Sustainable business performance represents one of Ericsson Nikola Tesla Group's key goals. Therefore, the Group creates a positive sustainability impact and reduces business risks through our technology, solutions, and the expertise of our employees. Sustainability and corporate responsibility are integrated into our business strategy and are an integral part of this Annual Report.

Every year the company implements many projects focused on United Nation Sustainable Development Goals. As one of the examples of our care for resources and the environment, I would like to highlight the energy efficiency project concerning the Company's buildings and plants worth more than MHRK 73. The project is co-financed by the EU "Competitiveness and Cohesion" Operational Program 2014-2020, as per the call for proposals "Increasing Energy Efficiency and Renewable Energy Sources in Manufacturing Industries", for which the Company received the maximum grant amount of MHRK 20. Furthermore, within the European LIFE Clim'Foot project, completed at the end of 2018, Ericsson Nikola Tesla was the only private company in Croatia that calculated its carbon footprint and, based on that analysis, created a plan to reduce the Company's impact on the environment and undertook a range of activities.

I am satisfied with the achievements of Ericsson Nikola Tesla Group in the area of sustainability and corporate responsibility in 2018. I will continue to encourage all employees to be more engaged in achieving sustainability and corporate responsibility goals as strategic directions of our business.

Conclusion - strategic directions

In 2018, we initiated a cycle of strategic planning for the period 2019-2023. We remain focused on the following strategic segments: end-to-end solutions for 4G/5G networks, digital transformation solutions, Managed Services and solutions in the Industry & Society segment. Furthermore, our strategic focus is placed on gaining new responsibilities and projects and strengthening competitiveness on the global Ericsson market.

We continue to develop partnerships with our customers in order to fully understand their needs. Furthermore, we have been continuously working on adaptation of our organization and ways of working, encouraging innovative organizational culture and have been investing in competence development and our technology leadership. Taking into consideration the demanding projects in 2019, we will remain focused on cost and operating efficiency and strategic risk management. Even though the costs related to strategic contracts and 5G investments will impact profitability short term, they will strengthen our business and market position in the long term.

Towards the end of this year, our Company will mark 70 years of stable business performance. This confirms that we have been and remained a reliable company that achieves clearly defined goals and has been continuously transforming to ensure business competitiveness and sustainability, recognizes new business opportunities and is a reliable partner to our customers and suppliers. We believe that this long-term trend of positive business results will continue in 2019.

All other data comprising the annual company report pursuant to Article 250a of the Companies Act can be found in the enclosed 2018 Annual Report, consisting of General report, Non-financial report, and the Consolidated and Non-Consolidated Financial Statements as at 31 December 2018.

Business responsibilities and activities

Ericsson Nikola Tesla d.d.

Ericsson Nikola Tesla is the leading provider of communication products and services in the operator segment, as well as a provider of innovative ICT solutions related to health care, national and public safety, state administration, transport, utilities and multimedia communication. Through innovation and leadership, we reflect on and encourage business opportunities and a profitable sales growth. By combining technology leadership, excellence in services, regional presence and e2e abilities, the employees in collaboration with the customers create added value. As an associated member of Ericsson corporation, our company operates in the Market Area Europe and Latin America (MELA).

The company's main activities encompass the following:

- research and development
- creating and implementing e2e communication solutions in the operator segment and ICT solutions for Industry & Society
- local, regional, and global delivery of services
- marketing and sales network.

Ericsson Nikola Tesla:

- creates innovative ICT solutions that improve people's lives, creating a new value for business and society
- encourages a prosperous environment by ensuring access to modern information and communications systems and technologies
- works with advanced technologies, playing an active role in e-projects
- is among leading export companies in the country and number one when it comes to exporting knowledge
- provides a modern test environment with a wide range of innovative solutions that enable the testing of operators' networks and internal Ericsson's users in a cost-effective and operatively efficient way.

Ericsson Nikola Tesla Servisi d.o.o.

Ericsson Nikola Tesla Servisi's core business is the provision of services related to the build and maintenance of telecommunications network infrastructure.

The company's activities are the following:

- consultancy services, including design, geodetic activities, controlling and resolving property-legal affairs
- building and maintaining the telecommunications network
- controlling and operating the telecommunications network
- mounting telecommunications equipment; telecommunications system power and cooling.

Owing to the services portfolio and its experience in managing telecommunications projects, the company can offer its services on a turnkey basis, which accounts for a high quality of the service and makes the company flexible in adjusting to all the user requirements.

Ericsson Nikola Tesla BH d.o.o.

The company operates on the market of Bosnia and Herzegovina and delivers products and services offered by Ericsson Nikola Tesla Group.

Libratel d.o.o.

Libratel's core business is the provision of telecommunication services, installation services, and putting into service and upgrading telecommunications equipment (core and access network).

Ericsson Nikola Tesla d.d. – Branch office Kosovo

The company operates on the market of Kosovo and delivers products and services offered by Ericsson Nikola Tesla Group.

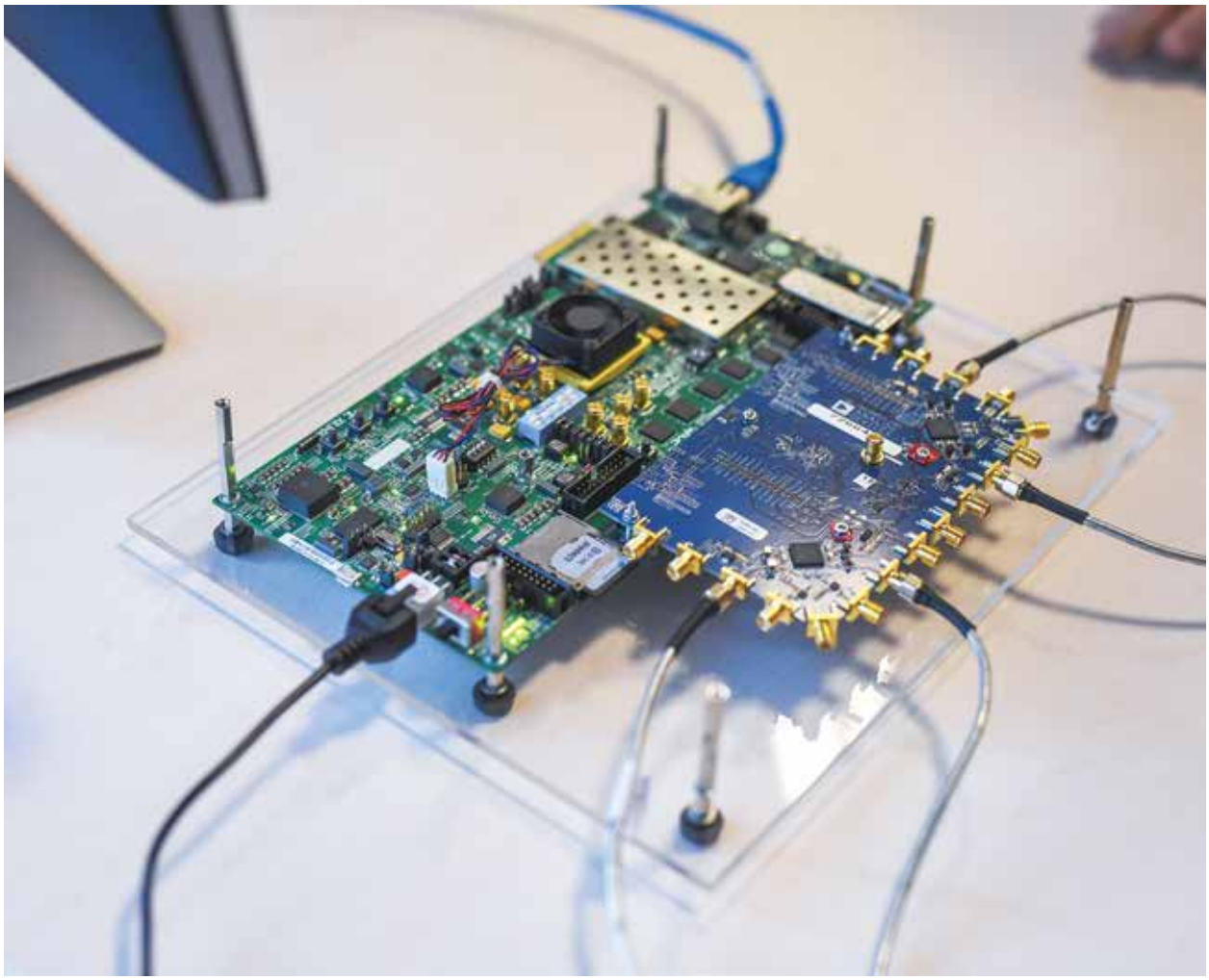
Ericsson Nikola Tesla BY d.o.o.

The company operates on the market of Belarus and delivers products and services offered by Ericsson Nikola Tesla Group.

Products and services

Ericsson Nikola Tesla Group provides its customers and partners with an entire portfolio of both Ericsson's and other selected providers' communication products, solutions and services in the following segments:

- high-performance networks
- services focused on network evolution and efficient management
- solutions with leading Operations and Business Support Systems (OSS/BSS) and media distribution
- strong support to the networked society by delivering solutions for selected Industry & Society segments and IoT solutions
- virtualization of telecommunication solutions and transformation of companies' business in the cloud environment
- automation of business processes and the provision of IS/IT services ranging from design, implementation and integration to maintenance.



Sales by markets

In the total sales revenue, the domestic market accounted for 23.9%, services to Ericsson accounted for 61.3% (out of which Managed Services in Croatia accounted for 11.4%), while other export markets accounted for 14.8%.

In the domestic market sales revenue amounted to MHRK 372.6 (2017: MHRK 276.6), up by 34.7% year-over-year.

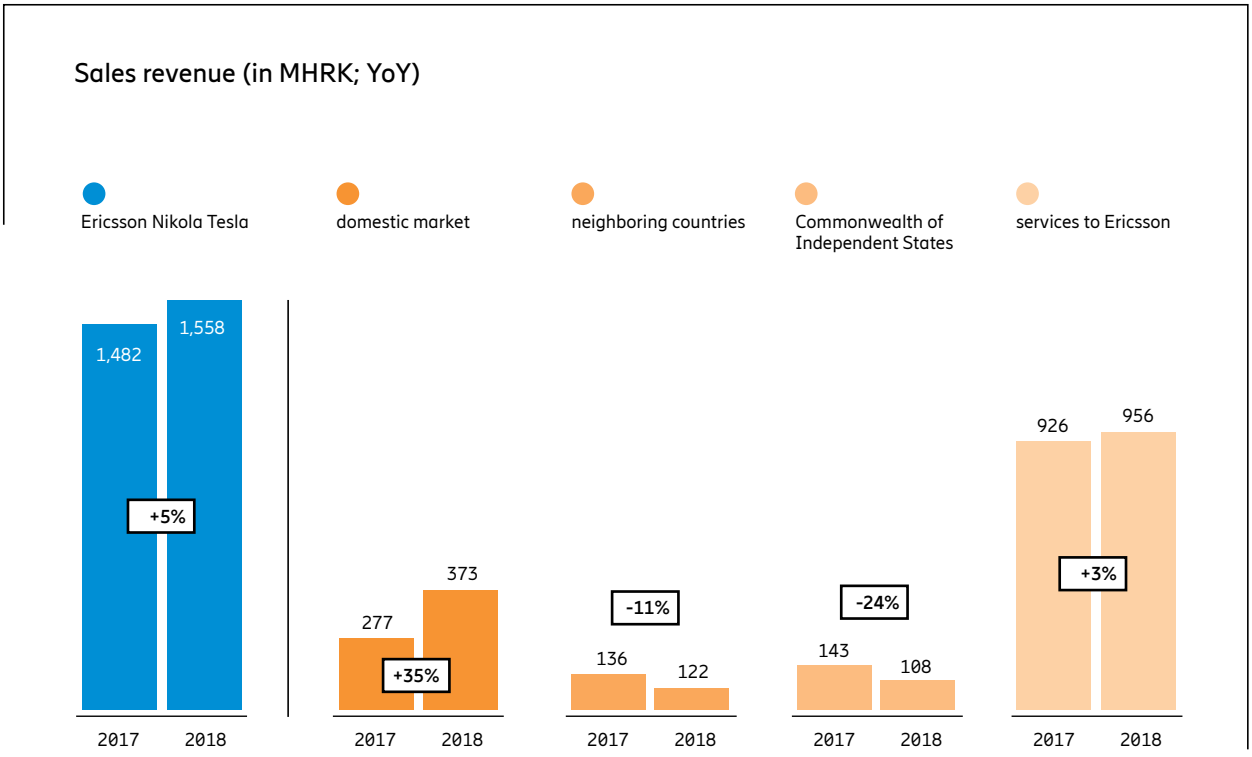
In 2018, main activities with the operator Hrvatski Telekom (HT) were related to radio access network modernization. By the end of 2018, the networks in the City of Zagreb, Zagreb County and Istria region were fully modernized, and network modernization will continue in 2019. The goal of this project, which includes the modernization of infrastructure, transport capacities and radio equipment, is to replace all the existing base stations, and prepare HT to offer Gigabit mobile Internet to its users and to implement 5G technology as soon as the required radio frequency spectrum is assigned. Public demonstration of 5G functionality in real environment on the first 5G equipment at 3.5 GHz frequency band was held in July in Istria. At the end of 2018, HT's mobile network was awarded the "P3 - Best in Test" certificate for the best mobile network in Croatia.

With strategic partner A1 Hrvatska we focused on the realization of a multi-year frame agreement which encompasses modernization and expansion of radio access network by using the latest products from Ericsson portfolio. In July 2018, A1 Hrvatska demonstrated in Zagreb a fully functional 5G technology by using Ericsson equipment, achieving data transfer speeds faster than 20 Gbit/s in real environment. At the same time, along with record data transfer speeds, four demos were held, showing how 5G technology will make the lives of citizens easier in the field of medicine, traffic, gaming, and video streaming.

Furthermore, collaboration in the field of core network and transport telecom network continues, which contributes to an increased quality and new services for end users.

With the mobile operator Tele2, we have been working on increasing the voice core network capacity and its maintenance with an emphasis on increasing the register of 4G users. We contracted the expansion of microwave transport network.

In ICT solutions for Industry & Society, activities continue on the implementation and upgrade of the Joint Information System for Land Registry and Cadaster. The



project of upgrading the Central Healthcare Information System of the Republic of Croatia (CEZIH) continues. With the Ministry of Interior of the Republic of Croatia, an agreement was signed on further implementation of the State Border Control System towards Bosnia and Herzegovina. Also, an agreement was signed for the 112 system maintenance and upgrade in the Republic of Croatia. The IT system for "Price Blocks" was successfully developed and implemented in the existing real estate IT system of the Ministry of Construction and Physical Planning. We are in the final phase of implementation of the Central Management System for hospitals. The informatization of IT solution for the Agency for Medicinal Products and Medical Devices of Croatia (HALMED) continues.

In the export markets (except Ericsson market) sales revenue decreased by 17.7% year-over-year, amounting to MHRK 229.8 (2017: MHRK 279.2).

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo), sales revenue amounted to MHRK 121.8 (2017: MHRK 136.3), down by 10.6% year-over-year. We met the greatest challenges in the market of Bosnia and Herzegovina due to unfavorable economic and political situation. Furthermore, BH Telecom awarded a multi-year agreement for radio access network modernization and expansion, as well as LTE introduction, to another vendor.
We should highlight the continuation of good cooperation with the operators HT Mostar, Crnogorski Telekom and Ipko on telecommunication networks modernization and maintenance. At the end of 2018, a three-year agreement was signed with Crnogorski Telekom on the expansion of radio access and core network. We also signed contracts for 112 system maintenance and upgrade in Bosnia and Herzegovina, and Montenegro.

In the market of the Commonwealth of Independent States, sales revenue amounted to MHRK 108 (2017: MHRK 142.9), down by 24.4% year-over-year due to ramping down of new network modernization projects. Main activities encompassed LTE networks rollout with the operators beCloud (Belarus) and IDC (Moldova), and modernization of mobile network for the operator Ucom (Armenia). Furthermore, activities continue on a complex project of healthcare system informatization in Kazakhstan in cooperation with the Ministry of Healthcare of the Republic of Kazakhstan.

In the Ericsson market, sales revenue amounted to MHRK 955.8 (2017: MHRK 925.8), up by 3.2% year-over-year.

Ericsson Nikola Tesla's R&D Center was awarded additional responsibilities in the development of 5G network systems. Towards the end of 2018, we completed a project of transferring knowledge and technology which are important for strategic development plans within the Networks segment. In the segment of Unified Data Management, we successfully continue working on the development of telecommunication nodes. The work on modernizing Equipment Identification Register node was completed, and the work on 5G CUDB nodes started. Furthermore, transfer of responsibilities for UDM network integration and verification was finished. For the development unit Cloud, we have been working on verification and quality control of HDS product and NFVi solution. Our experts have also been working on virtualization projects for Mobile Switching Centre (MSC), Home Location Register (HLR) and Equipment Identification Register (EIR) for numerous customers.

Ericsson ONE is a central place and a platform for fostering innovation culture and support to implementation and monetization of innovative ideas. Owing to rich experience in innovation, employees' competences, and solutions, Ericsson Nikola Tesla significantly contributes to Ericsson ONE platform. Main areas of activities encompass 5G, analytics and IoT, and monetization of solutions based on the mentioned technologies.

Experts from Services and Solutions Center for Networks, along with contracts for Ericsson Nikola Tesla, worked for Ericsson global customers in Austria, Switzerland, Germany, the Netherlands, the United States, South African Republic, Ghana, Indonesia, Malaysia, South Korea, Bangladesh, etc. These are complex activities in the field of expert analytics, creation of new innovative solutions, optimization and upgrading of the existing networks, and consultancy services. We continued to work on the development and implementation of software tools for mobile networks management and optimization.

Experts from Services and Solutions Center for Digital Services and Operations were engaged in projects for customers in Austria, United Kingdom, Germany, Japan, France, the Netherlands, Ireland, Switzerland, Slovakia, Italy, Luxembourg, Spain, Hungary, Slovenia, Serbia, Poland, Russia, Turkey, etc. These activities include the most complex projects of introducing 5G technology, operations and business support systems, as well as numerous projects of introducing core solutions in cloud.

Our teams from IT & Engineering Services and Industry & Society have been achieving good results on projects of Test environment management, IT Operations management, IoT platform and Connected Urban Transport.

The contribution of Ericsson Nikola Tesla Servisi d.o.o., a daughter company of Ericsson Nikola Tesla d.d., to the revenue in this market segment amounts to MHRK 178 (2017: MHRK 178.5).

Ericsson Nikola Tesla Servisi successfully provided services of monitoring, maintenance and rollout of HT's telecommunication network. In 2018, key projects regarding fixed infrastructure and mobile infrastructure modernization were realized.

Scientific and research activities

Scientific and research activities at Ericsson Nikola Tesla are in line with long-term strategic goals of business development. They are based on applied research for the development of new products, research of new processes and technologies, as well as the application of new functionalities for our products.

The main driving force behind scientific and research activities in the company is Ericsson Nikola Tesla's Research Unit (ETK/I). The Unit is also responsible for Ericsson Nikola Tesla Institute, which virtually connects all scientists in the company. Research work implies collaboration on joint projects with R&D centers in the corporation as well as universities, institutes and companies in Croatia and abroad.

A very important part of research activities is related to the participation in projects funded by the European Union. Early in 2018 began the implementation of Horizon 2020 (H2020) LIVING INNOVATIONS project, in which we participate as an industry partner. The project aims at developing methods for the implementation of responsible research and development with the purpose of improving people's lives by using technology. During the year, activities in the URBAN INNO project from the H2020 – REGPOT program were undertaken with the aim of improving the creation of innovation systems in the European Union regions. We collaborate on the ERASMUS++ BENEFIT project, which aims at advancing telecommunication study programs in the region. We participated in the preparation of three H2020 project proposals together with our partners from the scientific community and the industry from across the EU. Currently, we are waiting for the project evaluations to be made.

The company continued its successful collaboration with the Faculty of Electrical Engineering and Computing, University of Zagreb, in the field of research. A prominent position is given to the project of researching the communication between different devices in the m2m communication. We continued with the research into the system for the optimization of radio signal transmission. As part of the collaboration, the possibility of using machine learning in identifying traffic characteristics and service quality in the case of an encrypted YouTube video feed was analyzed as well. The project to examine database characteristics for the purpose of working with big data in relation to telecommunication nodes was carried out in collaboration with the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split. A new project was launched with the purpose of defining access networks reliability for the connection of a large number of nodes for the Internet of Things, with a special focus on use cases for critical requirements in communication and decision-making. In collaboration with the Faculty of Engineering, University of Rijeka, the work on EVOSOFT project, funded by the Croatian Science Foundation, was completed. Its aim was to improve software development for large systems that are conducting an evolutionary development – predicting the quality of development based on the errors reported so far in the developed system. We initiated activities for the opening of research laboratory in our Osijek office with the purpose of ensuring a closer collaboration with the Faculty of Electrical Engineering, Computer Science and Information Technology, Josip Juraj Strossmayer University of Osijek.

A very important part of research activities is related to the participation in projects funded by the European Union.

The research team continued with the work in the domain of analyzing big data as well as with numerous projects in the field of machine learning and artificial intelligence during the year. Activities were resumed in the field of analysis and creation of systems for automated recognition of events that may cause irregularities in industrial plant operations by applying a robot hand model. We continued working on IoT application in the domain of environment control with a specific case of testing drinking water.

Collaboration with educational institutions was continued through a joint organization of the 18th Ericsson Nikola Tesla Summer Camp, in which 57 students and 36 mentors from Croatia and abroad participated. This student activity was organized in collaboration with the Faculty of Electrical Engineering and Computing, University of Zagreb (FER), the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split (FESB), the Faculty of Engineering, the Faculty of Medicine and Department of Mathematics, University of Rijeka (RITEH, MEDRI, MatRI), the Faculty of Electrical Engineering, Computer Science and Information Technology, Josip Juraj Strossmayer University of Osijek (FERIT), the Faculty of Electrical Engineering, University of Tuzla (ETF TU), the Faculty of Electrical Engineering in Podgorica, University of Montenegro, Center for Croatian Studies, University of Zagreb (HS), the Faculty of Mechanical Engineering and Computing, University of Mostar (FSRE), the Faculty of Science, University of Zagreb (PMFZG), the Faculty of

Science, University of Split (PMFST), Algebra University College in Zagreb, the Faculty of Organization and Informatics, University of Zagreb (FOI) and TU Wien.

The students' activities were aimed at:

- studying selected problems in research that are crucial to Ericsson Nikola Tesla and the development of prototype applications
- working on apps and demos for the customers
- internal tools designated for future requirements
- extended activities related to the proposed solutions and ideas obtained through the innovation process.

During the year, we continued to collaborate with our partners within the framework of Scientific Center for Data Science and Cooperative Systems, whose member is our company. We participated in the preparation of a preliminary study for the opening of a science-technology park in the Republic of Croatia in collaboration with Lindholmen Science Park in Sweden and with the support from the Swedish company Saab.

Ericsson Garage Croatia successfully carried out three projects. One of these projects was carried out in Split. Smart Habits project concerns the application of analytics in the field of taking care of the elderly. It attracted considerable interest at the presentations at Mobile World Congress 2018 in Barcelona. Implementation of the project was successfully finished in the Garage and the project was passed on for further development in the Industry & Society unit to be commercialized. The project was very well received by the customers at its presentation in London and in Brazil. The second project dealt with finding optimal algorithms for predicting and planning the activities of building environmental infrastructure, which are based on the data on user movement; it resulted in a tool for space planning. The third project in the Garage in Split researched analytical methods for connecting various types of data for the purpose of better predictions and creation of artificial intelligence in agriculture. The project resulted in a set of new methods for data correlation and a prototype system which showed the possibilities of using various data sources and developing program sensors based on collected data.

Important events

2018

January-March

- President of the company Gordana Kovačević actively participated in a panel discussion among presidents of management boards at Croatian ICT companies at the "Technology-Media-Telecommunications, Trends in 2018" conference, which was organized by PWC Croatia and business weekly *Lider*. In her presentation, Gordana Kovačević gave an interesting overview of current global ICT trends using Ericsson's latest reports on consumer expectations. She particularly highlighted the need for fast digital transformation and provided an overview of the labor market situation by underlining the importance of connecting knowledge from STEM areas with all other domain knowledge as the only guarantee for the digital transformation of the society which we want to achieve.
- Ericsson Nikola Tesla Group business results in 2017 as well as the outlook and business expectations in 2018 were presented to the public at a press conference.
- Ericsson Nikola Tesla's delegation, headed by the president of the company, took part in the Mobile World Congress in Barcelona.
- Under the slogan "Mental health: a joint choice", in the Ministry of Health was held a formal event on the occasion of successfully finishing a project "Ensuring the Optimal Health Care for the People with Mental Health Problems – Technical Help Component". The project was funded in the framework of the European Union's Transition Facility for the Republic of Croatia. The project was implemented by Ericsson Nikola Tesla d.d. and MCS Grupa d.o.o. for the needs of the Ministry of Health as the user and the Croatian Institute of Public Health as the end user.
- We signed a contract with the Ministry of Health of the Republic of Croatia related to a great number of solutions which will enable the management of the healthcare system. The activities concern the central management system for the management of healthcare system organizational structure, the central system for communication with hospitals, the system for automatic daily collection of all health indicators, data analysis, structured web publications from all hospitals in the Republic of Croatia as well as an upgrade of the hospital invoicing systems.
- EU project "Development and implementation of IT system for monitoring the implementation of the General Administrative Procedures Act (GAPA)" was finished. As the contractor in the project, Ericsson Nikola Tesla developed a GAPA IT system that addresses the users' needs and meets all the set requirements in order to facilitate the monitoring of the act implementation. In collaboration with the Ministry of Public Administration, Ericsson Nikola Tesla held education courses in Zagreb, Osijek, Rijeka and Split for future users.
- On the company's premises in Zagreb, the first demonstration of 5G technology in Croatia was held. At the same time, Taste of Barcelona event was held. Moreover, significant expansion of the company's activities in the field of research and development was announced, revealing further intensive employment of experts in Croatia, particularly on jobs with high added value. Highest ranking government officials, headed by the President of the Government of the Republic of Croatia Andrej Plenković, attended the event "Focused on the future".
- We made donations to help families in Hrvatska Kostajnica whose homes were destroyed in a landslide.
- As of early April, our employees working in Zagreb have their regular medical checkups in a specialist clinic Sveti Rok in Zagreb.

April-June

- Additional modernization of mobile network was agreed with Hrvatski Telekom.
- The first phase of EU's WaterQ project was completed. In this project, Ericsson Nikola Tesla enables automated collection and transfer of key parameters for water quality and safety, an advanced approach in comparative analyses of automatic measurements conducted in a laboratory and a simple visualization of analysis results.
- Ericsson Nikola Tesla and the University of Mostar signed an Agreement on cooperation in the field of ICT in scientific and research activities, with the purpose of jointly creating an innovative society of knowledge.
- Female students from three high schools in Zagreb participated in a workshop "Girls Who Innovate". The workshop was held by Ericsson Nikola Tesla's employees. The purpose of these workshops was to inspire the students to develop their innovation skills, interest them in ICT and encourage them to pursue their education and career in ICT. At the workshop, the students were able to learn more about ICT and its significance for modern life and business. Through practical work in teams, following Ericsson's model of an innovation molecule, they were given an opportunity to develop an idea that addresses a challenge related to the future of education, which is also the topic of Ericsson's global Girls Who Innovate competition.

- Ericsson Nikola Tesla joint-stock company held its Annual General Meeting, at which all the proposed decisions were adopted.
- A grant agreement was signed with the Ministry of Environment and Energy and Environmental Protection and Energy Efficiency Fund on awarding HRK 20 million for increasing energy efficiency in the company, under the "Increasing Energy Efficiency and Renewable Energy Sources in Manufacturing Industries" project in the framework of the "Competitiveness and Cohesion" Operational Program 2014-2020.

July-September

- Ericsson Nikola Tesla opened its office in Mostar.
- A contract with HT Mostar was signed for radio access network expansion, which will enable better coverage, increased capacity and increased data transfer speeds.
- Ericsson Nikola Tesla and IGEA d.o.o. signed a contract with the State Geodetic Administration for the service of developing an application solution and implementing a system of infrastructure cadaster (HR-KI) and a One Stop Shop.
- Ericsson Nikola Tesla opened an office of its Research and Development Center in Osijek.

October-December

- As the central event at the international exhibition of IT solutions in the field of healthcare "Digital Health Astana", president of the company Gordana Kovačević and representatives of the Ministry of Healthcare of the Republic of Kazakhstan officially presented the eHealth platform which is implemented under the contract "Delivery of Health Information Systems Informatization and Inter-Operability Platform".
- Traditionally, graduate students from numerous faculties from Croatia and abroad worked in Ericsson Nikola Tesla's Summer Camp in Zagreb and Split. The closing of the Summer Camp was held on the company premises. The event was marked with day-long activities, including poster and demo sessions and the closing ceremony.
- Under the slogan #BeActive, the company's employees marked the European Week of Sport – Activity at the Workplace event by participating in a workout workshop and an educational presentation by certified trainers.
- The 500th base station, at the location Hobolići, was successfully modernized within the project for modernization of Hrvatski Telekom's network.
- Ericsson Nikola Tesla's Research and Development Center in Osijek hosted the 29th meeting of *Lider's* Club of Exporters. There were approximately thirty distinguished exporters at the meeting, including our company, which occupies an important place among them since it is Croatia's largest exporter of knowledge. The main message of this meeting was that a more favorable export climate needs to be created, which would ultimately imply a bigger number of exporters with better results; this is especially important from the aspect of the growth of Croatia's GDP.
- On the occasion of marking the International Day of Persons with Disabilities, on the company's premises specific tools were presented for blind and visually impaired persons that are intended to improve the possibilities for their professional integration and a higher quality of their lives. EVA app, which was developed at Ericsson Nikola Tesla, represents a speech-recognition, voice-command and dictation solution, and is the first such solution for users from the Croatian-speaking area. It is available to all citizens free of charge via Google Play Store.
- In accordance with the frame agreement between Crnogorski Telekom and Ericsson Nikola Tesla, we signed a contract for activities related to Crnogorski Telekom's new investment cycle by the end of 2021 in the field of radio access network and mobile core network as well as other significant projects.
- Securitas Hrvatska d.o.o. and Ericsson Nikola Tesla together with KING ICT as a subcontractor, participating in a consortium, signed an agreement on the implementation of the project for setting up a "Stationary system for the control of state border with Bosnia and Herzegovina and Montenegro". These resources are co-financed by the Internal Security Fund (ISF) – Borders.
- In the "Metropolis" club, Ericsson Nikola Tesla Group held a Christmas party for its customers and business partners.

Membership in associations

At Ericsson Nikola Tesla, we encourage not only digital transformation but also other positive changes in the society and economy. We are aware of our responsibility and for this reason we develop advanced practices in the company and we provide a benchmark for other entities. Therefore, the Group and its experts are welcome members of various professional associations, organizations, scientific institution bodies and many others as they can make a valuable contribution with their knowledge, experience, innovativeness and responsibility.

In addition to compulsory memberships in umbrella institutions, such as the Croatian Chamber of Economy and its bodies (Croatian International Chamber of Commerce – ICC Croatia, etc.), the Group is also a regular member of the following organizations:

- Croatian Employers' Association
- Croatian Managers' and Entrepreneurs' Association
- Croatian Exporters
- *Lider's* Club of Exporters
- National Digital Economy Council
- Croatian Competitiveness Cluster
- Croatian Business Council for Sustainable Development
- Croatian Standards Institute
- IEEE Institute (Institute of Electrical and Electronics Engineers)
- Croatian Society for Information and Communication Technology, Electronics and Microelectronics (MIPRO)
- Croatian Chamber of Electrical Engineers
- World PMI Association
- Agile Croatia
- PMI Croatia
- AMAC - Alumni FER
- Croatian Chamber of Chartered Geodetic Engineers
- Croatian Chamber of Civil Engineers
- Croatian Society for Medical Informatics
- Croatian Java User Association
- Croatian Association of Purchasing
- Croatian Association for a Healthy Workplace
- Croatian Public Relations Association
- Association of Corporate Lawyers
- and many others.

Initiatives

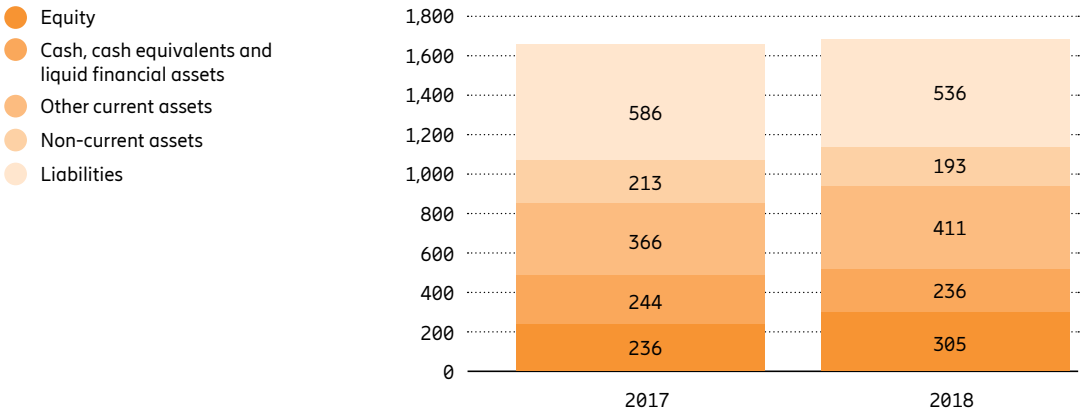
Ericsson Nikola Tesla participates in the following socially important initiatives and platforms:

- Innovation Industry Council of the Republic of Croatia
- National Council for Digital Economy
- Committee for the Implementation of the Strategy of Education, Science and Technology of the Ministry of Science and Education
- Committee for the coordination of activities of the "Unity through Knowledge Fund" within the framework of the Croatian Science Fundation, under the auspices of the Ministry of Science and Education
- Croatian Business Council for Sustainable Development Diversity Charter
- UNICEF's Think Tank on child rights and corporate social responsibility (CSR)
- LIFE Clim'Foot project – Voluntary program: Calculating carbon footprint of an organization by end users
- The 30% Club – Croatia

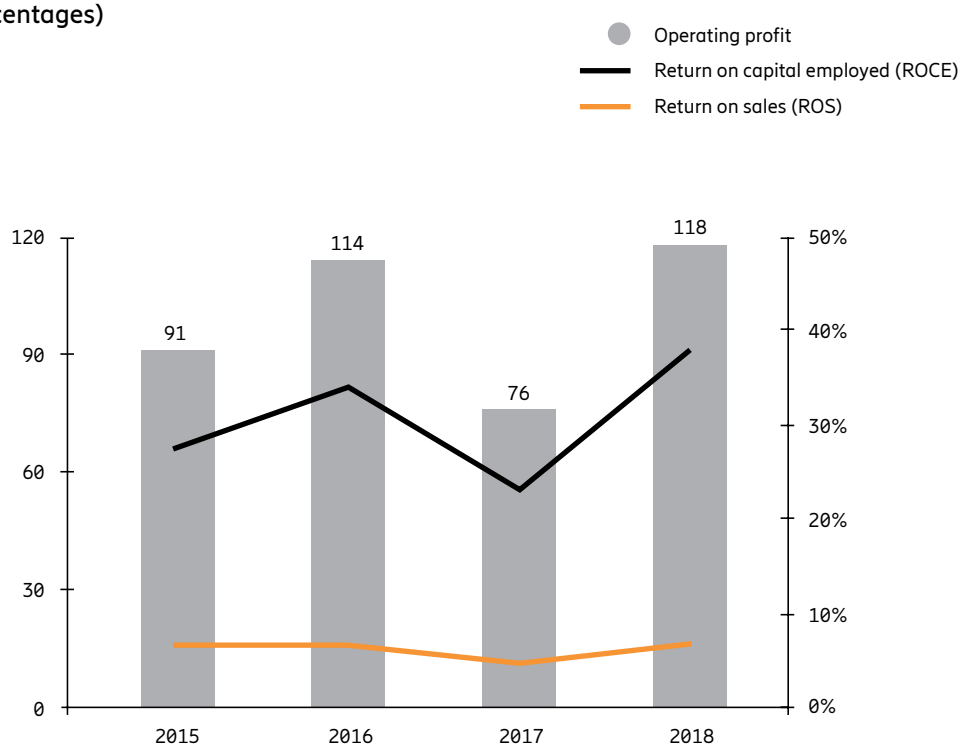
2018 financial highlights

	Ericsson Nikola Tesla Group			Ericsson Nikola Tesla d.d.		
	2018	2017	2016	2018	2017	2016
Income statement and cash flow items (in HRK million)						
Sales revenue	1,558	1,482	1,592	1,374	1,465	1,576
Selling and Administration expenses	-68	-80	-78	-66	-78	-76
Operating profit	118	76	114	116	71	112
Profit for the year	114	68	111	112	64	110
Operating cash flow	75	108	187	81	103	181
Year-end position (in HRK million)						
Total assets	840	822	808	819	795	772
Cash, cash equivalents and liquid financial assets	236	244	288	231	230	276
Capital employed	326	266	329	305	244	303
Equity	305	236	287	291	223	278
Per share indicators						
Earnings per share (EPS) in HRK	85	51	83	84	48	83
Dividends per share		32,5	90		32,5	90
Number of shares outstanding, average (in millions)	1,332	1,330	1,329	1,332	1,330	1,329
Other information (in HRK million)						
Additions to property, plant and equipment	40	26	33	39	26	25
Depreciation of property, plant and equipment	34	40	48	29	36	44
Alternative Performance Measures (APMs)						
Gross margin	10.4%	10.2%	11.9%	11%	9.9%	11.8%
Operating margin	7.6%	5.1%	7.2%	8%	4.8%	7.1%
EBITDA Margin	9.8%	7.9%	10.2%	10.6%	7.3%	9.9%
Cash conversion	38.9%	68.2%	96.7%	44%	69.4%	100.0%
Return on equity (ROE)	42.0%	26.0%	37.2%	43.5%	25.5%	37.9%
Return on capital employed (ROCE)	38.4%	22.9%	33.7%	40.7%	23.4%	35.8%
Return on sales (ROS)	7.3%	4.6%	7.0%	8.1%	4.4%	7.0%
Equity ratio	36.3%	28.7%	35.5%	35.5%	28.1%	36.0%
Capital turnover	5.3	5.0	4.8	5.0	5.4	5.2
Current ratio	1.3	1.1	1.2	1.2	1.1	1.2
P/E ratio	11.8	23.6	14.0	12.0	24.9	14.0

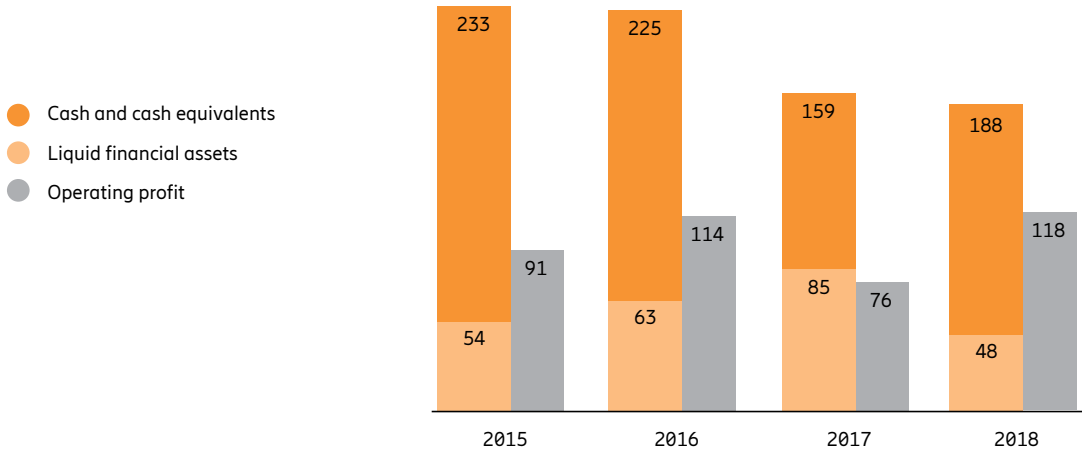
Balance sheet structure (in MHRK)



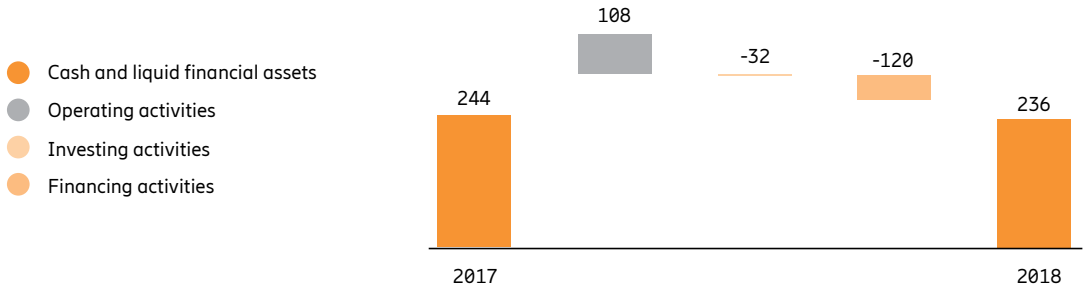
Operating profit (in MHRK), ROCE and ROS (in percentages)



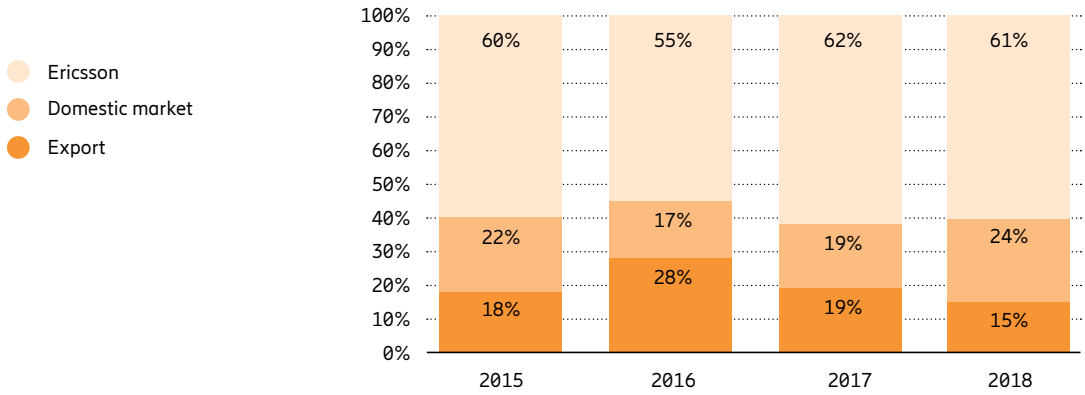
Development of liquid assets and operating profit (in MHRK)



Change in liquid assets (in MHRK)



Sales revenue by market (in percentages)



Financial performance in 2018

Damir Bušić
Acting Finance Director

Business results achieved in 2018 indicate a continuation of solid financial performance. Despite meeting many challenges, we managed to realize key business opportunities and plans, ending the year with a strong net profit, lean balance sheet and solid cash position with an effective working capital management.

Business activities in the domestic market record a strong growth, which is primarily the result of an increased number of network modernization projects. Ericsson market continuously records growth and contributes to the overall business stability. Contrary to sales growth in the domestic and Ericsson market, export markets recorded slightly lower sales revenue. Unfavorable impact of the political and economic situation as well as delays in certain operators' investments resulted in the ramping down of network modernization projects and the slower dynamics of project implementation.

Cost and operational efficiency, capital efficiency and risk management in our business activities on demanding markets are continuously the focus of attention at our company as well as a way in which we strengthen the already solid financial foundation of our company. Through said activities we further reduced costs and used the existing resources more efficiently, which had a positive impact on the margin. Provisions on two projects (the strategic project of digital transformation in the CIS market and network modernization project in Croatia) had an unfavorable impact on the margin.

With a strong focus on cash collection and lean use of working capital, we produced a solid cash flow from operating activities and managed to maintain the necessary cash position. The year ended with a lean balance sheet which was at the same level as the year before. Despite prolonged, complex and substantial investment in projects as well as higher investment in its own assets, the company maintained an adequate level of cash and cash equivalents.

As expected, the effects of adopting new IFRS in 2018 did not have any considerable impact on the Company's retained earnings and net result when compared with previous years. As at the date of transition, 1 January 2018, the impact of IFRS 15 on retained earnings was HRK 72 thousand, and the biggest changes in 2018 reflect on extended warranties, agency agreements and given discounts. As at the date of transition, 1 January 2018, the impact of IFRS 9 was HRK 1,016 thousand, and during 2018 the impact of applying the new model was noticeable with regard to cash and cash equivalents, deposits, receivables and contract asset.

It is expected that the biggest impact of adopting IFRS 16, which has been applied since 1 January 2019, is to be made in the accounting of operating leases used by the Group for a significant number of immovable assets and vehicles.

Due to results achieved and with absolute confidence in our capabilities, the Company is ready to continue implementing its business strategy, further ensuring in this way a high return for its shareholders.

Information for shareholders

Shares of Ericsson Nikola Tesla d.d. are traded in the Regular Market of the Zagreb Stock Exchange under the ticker symbol ERNT-R-A.

Share trading and price trend

At the end of 2018, Ericsson Nikola Tesla's market capitalization was MHRK 1,345 (2017: MHRK 1,603.3). As regards the free float market capitalization, Ericsson Nikola Tesla is ranked tenth on the Zagreb Stock Exchange, with MHRK 684.7, representing 2.2 percent of the total free float market capitalization. At the end of 2018, Ericsson Nikola Tesla's share weight in CROBEX Index was 6.4 percent.

An optimistic start of 2018 at the Zagreb Stock Exchange, and a positive trend from the last quarter of 2017 were not sufficient for the overall turnover statistics to be better when compared to 2017. Shares turnover within the orderbook was -39.8% lower, while the bonds were +86.6% higher, which in the end resulted in -24.2% lower turnover within the orderbook. The total turnover was -22% lower compared to 2017.

Market capitalization decreased by -4% to HRK 132.7 billion. At the end of 2018, the indices were mostly negative: CROBEX and CROBEX10 were corrected by -5%, while CROBEXtr, which also includes the dividends, was corrected by -2.8%.

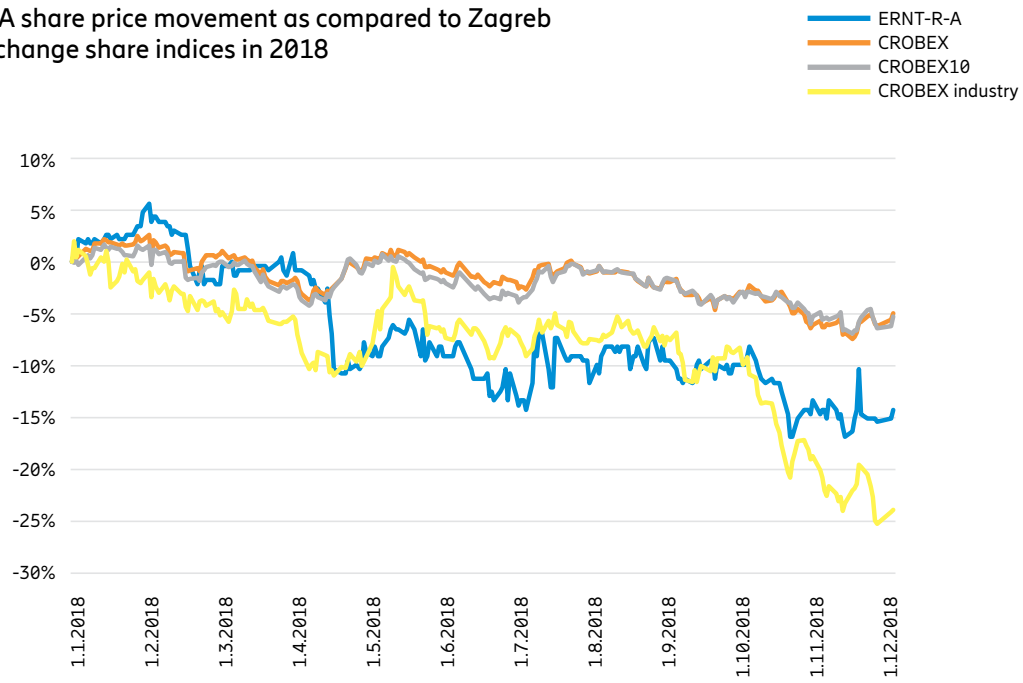
The liquidity was mostly concentrated in a smaller number of shares, and approximately 40% of the total turnover is creditable to 10 shares with the biggest turnover.

Average ERNT-R-A share price trend 2014-2018 (in HRK)

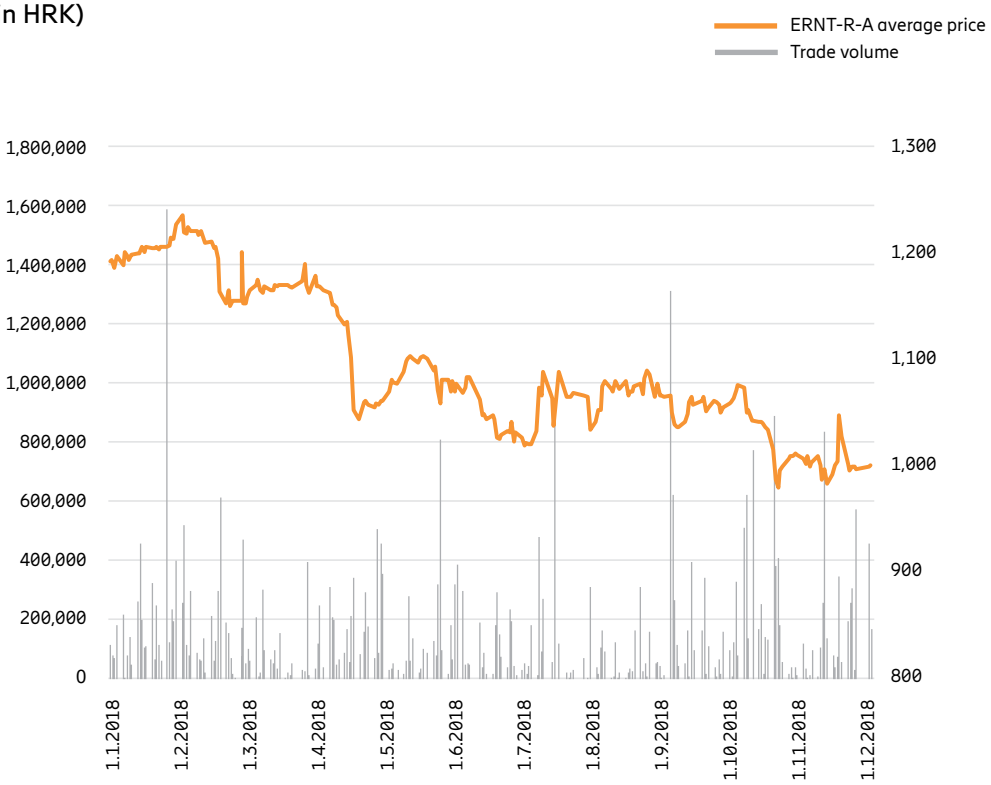
Share price and turnover	2014	2015	2016	2017	2018
Highest (HRK)	1,659	1,390	1,179.99	1,444	1,240
Lowest (HRK)	1,250	930	940	1,066.51	976
Last - end of the year (HRK)	1,299	1,045	1,164	1,203.99	1,010
Turnover (in MHRK)	174.2	79.4	53.2	55.1	39.3
Trade volume	116,379	68,888	49,628	43,312	36,116
Dividend per share (HRK)					
- regular	20	20	20	32.5	70.6*
- extraordinary	70	80	70	-	-

* Proposed dividend amount submitted to Ericsson Nikola Tesla Annual General Meeting

ERNT-R-A share price movement as compared to Zagreb Stock Exchange share indices in 2018



ERNT-R-A share trading volume and average price trend in 2018 (in HRK)



Share capital

As at 31 December 2018, the share capital of the joint-stock company Ericsson Nikola Tesla amounted to HRK 133,165,000 distributed in 1,331,650 ordinary registered series A shares. Every share carries one vote at the Annual General Meeting. The total number of treasury shares at the end of 2018 was 211, representing 0.016% of the share capital. The shares were owned by 6,843 shareholders.

Ericsson Nikola Tesla d.d. major shareholders as at 31 December 2018

Shareholders	Number of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07%
Addiko Bank d.d. / Raiffeisen mandatory pension fund, B category	123,514	9.28%
OTP banka d.d. / Erste Plavi mandatory pension fund, B category	44,415	3.34%
Addiko Bank d.d. / PBZ Croatia osiguranje mandatory pension fund, B category	16,810	1.26%
PBZ d.d. / The Bank of New York as custodian	13,752	1.03%
Zagrebačka banka d.d./ Unicredit Bank Austria - clients account	12,981	0.97%
Zagrebačka banka d.d./ State Street and Trust company, Boston	12,428	0.93%
PBZ d.d. / custodian client account	9,734	0.73%
OTP banka d.d. / OTP Index fund - open-end alternative investment fund with public offering	8,312	0.62%
Addiko Bank d.d. / Raiffeisen voluntary pension fund	7,934	0.60%
Other shareholders	428,297	32.17%